

**Exhibit 2**

**Tax Enterprise Zone Credits Engagement Letter**



August 26, 2013

Mr. Mark T. Caron  
Vice President - Tax  
Pacific Gas and Electric Company  
77 Beale Street, MC: B12G  
San Francisco, CA 94105

### **California Enterprise Zone Tax Credit Services**

Dear Mark:

This engagement letter and attached Riders for PwC Agreement (collectively "Agreement") confirms that Pacific Gas and Electric Company and its subsidiaries and its affiliates ("PG&E" or "you" or "Client") has engaged PricewaterhouseCoopers LLP ("we" or "us" or "PwC") to provide the services described below. PG&E may procure services under this engagement letter for itself and for those of its consolidated subsidiaries or affiliates that PG&E binds to this engagement letter by its signature or which separately agree to the provisions of this engagement letter (collectively, the "Subsidiaries").

### **Scope of Our Services**

You are engaging us to provide the following services (the "Services") regarding your California Enterprise Zone Credits:

Assist and advise you in documenting, calculating, and claiming available California Enterprise Zone Hiring Tax Credits ("HTC") based upon the Targeted Employment Area ("TEA") for all open tax years through December 31, 2013 for any amount in excess of what PG&E and PG&E's other vendors have already identified and vouchered. In that regard, we will assist and advise PG&E in the following two phases:

#### **Phase 1 – Identify Potentially Qualified Employees and Calculate Potential Hiring Credit**

In Phase 1 we will assist and advise PG&E in:

- Evaluating hiring credit eligibility of active and terminated employees hired during the period from January 1, 2003, through December 31, 2013, based on TEA residency at all PG&E California locations within a California Enterprise Zone(s);
- Obtaining supporting documentation related to potentially qualified employees; and
- Providing a high level estimate of the potential benefit of proceeding to Phase 2, taking into account the approximate benefit identified.

#### **Phase 2 – Finalize, Document and Calculate Hiring Credit**

Whether to proceed to Phase 2 is at the sole discretion of PG&E and that determination shall be made at the conclusion of Phase 1. Phase 2 will consist of assisting and advising PG&E in:

- Processing and evaluating all information collected in Phase 1;
- Completing and submitting the necessary forms for hiring tax credit vouchers;
- Calculating the hiring tax credit for all locations and employees identified in Phase 1;
- Preparing a summary report of the identified TEA hiring tax credits along with supporting documentation.
- Recalculating the EZ limitation and preparation of amended Forms 3805Z for each year,



During the course of our review, it is possible that we may also identify potential liabilities for underpayment of tax and/or failures to file required returns (hereinafter referred to as "errors"). Accordingly, we will inform you of errors and will recommend corrective action for your evaluation and review.

All calculations and forms in support of the claimed credits will be presented to PG&E for its consideration, review, approval, and signing, as necessary, prior to filing by PG&E with the appropriate state agencies.

### **Ownership and Use**

We are providing these Services and deliverables solely for your use and benefit and pursuant to a client relationship exclusively with you. We disclaim any contractual or other responsibility or duty of care to others based upon these Services or upon any deliverables or advice we provide.

You will own all tangible written material prepared for and delivered to you under this engagement letter, except as follows: we own our working papers, preexisting materials and any general skills, know-how, processes, or other intellectual property (including a non-client specific version of any deliverables) which we may have discovered or created as a result of the Services. You have a nonexclusive, non-transferable license to use such materials included in the deliverables for your own use as part of such deliverables.

In addition to deliverables, we may develop software or electronic materials (including spreadsheets, documents, databases and other tools) to assist us with an engagement. If we make these available to you, they are provided "as is" and your use of these materials is at your own risk.

### **Our Responsibilities**

We will perform the Services in accordance with the Statements on Standards for Tax Services established by the American Institute of Certified Public Accountants. Accordingly, we will not provide an audit or attest opinion or other form of assurance, and we will not verify or audit any information provided to us.

### **Your Responsibilities**

To facilitate our work, you will need to provide the following assistance:

- On-site workspaces equipped with working telephones, if required;
- Access to key personnel, as required;
- All requested and required information; and
- The name of a liaison to whom we will submit requests for such information and who will be responsible for ensuring the completeness and accuracy of the information provided.

You are responsible for all PG&E management functions and decisions relating to this engagement, including evaluating and accepting the adequacy of the scope of the Services in addressing your needs, and it is your responsibility to establish and maintain your internal controls. You will designate a competent member of your management to oversee the Services.

We expect that you will provide timely, accurate and complete information and reasonable assistance, and we will perform the engagement on that basis.

### **Fees and Expenses**

There is no fee for our work under Phase 1. Our fee for Phase 2, should PG&E decide to pursue it, is equal to twenty percent (20%) of the tax savings related to the California EZ HTC review for all open tax years



through December 31, 2013, as described herein, whether claimed on past, present or future tax returns, including returns filed after 2013, that is generated by qualified employees identified and vouchered by PwC under this engagement (and not previously identified by PG&E or its other providers). The 20% fee percentage includes all fee and expenses, except for the fees imposed by EZ Vouchering Agents. There will be no additional fee or expenses. In the event the tax savings is at least \$1,000,000, then our fee is equal to fifteen percent (15%) of the tax savings (therefore if the tax savings is \$1,000,000 our fee is \$150,000).

Our fee will be due at the time Client receives the cash benefit, i.e., upon receipt of the refund or claiming an offset against a tax liability.

We reasonably expect that the California EZ HTC will undergo substantive review and consideration by the state taxing authorities.

For this purpose, "tax savings" are defined to include refunds and/or reduction of tax and penalties, plus interest on those amounts identified and documented by PwC for prior and/or current and/or future tax years, as finally determined by any governmental authorities, including a state or federal court. Tax Savings also include any overpayments identified within the project, including related interest and penalties, which, as a result of either the taxing jurisdiction's review or a federal or state court ruling, are applied as offsets against past, current or future taxing jurisdictions' liabilities for tax, interest and penalties, regardless of the source for these liabilities.

In some instances, the amount of EZ HTC identified will exceed the amount that can be utilized in a given year. In such instances, the excess is carried forward to the following year. For purposes of determining PwC's fee on an originally filed return, credits will be deemed to be utilized in the following order: (1) sales and use tax credit carryovers, (2) credit carryovers generated from individuals previously qualified by PG&E or its other providers, (3) credits generated by PG&E or its other providers, and (4) credits generated by PwC hereunder.

If any EZ HTC tax credits or tax savings are challenged by the FTB, PwC will, at its own expense, represent PG&E through the administrative examination and protest phase. If any credits or savings utilized on an originally filed return are ultimately disallowed after examination, PwC's fee shall be refunded, without interest. After PG&E exhausts any legal alternatives that it deems appropriate, PwC will refund the pro-rata portion of the fee that resulted from the disallowed item or items, without interest. Further, PwC will refund the fee received for interest paid by the FTB to PG&E if such interest must be refunded to the FTB due to the disallowance. To the extent PG&E incurs additional interest liability to FTB as a result of the refund paid to PG&E for additional HTC vouchered by PwC, which is then disallowed later, PwC will compensate PG&E for the additional interest liability due to FTB.

The scope of our defense services is limited to the field audit and administrative examination and protest levels. In the event that the matter cannot be resolved to PG&E's satisfaction at the administrative examination and protest phase PG&E may consider retaining legal counsel, as PwC cannot represent PG&E in any legal proceedings.

In the unlikely event that PG&E unilaterally elects not to proceed with the HTC tax savings recommended by PwC, PG&E agrees to pay 50% of the hourly rates set forth below for any and all time spent during Phase II up to the time of the decision not to proceed with the IITC tax savings. The applicable hourly rates before discount are as follows:



Partner	\$ 890
Managing Director	\$ 690
Director	\$ 535
Manager	\$ 405
Senior Associate	\$ 305
Associate	\$ 225
Professional Assistant	\$ 145
Executive Assistant	\$ 120

In the event that PG&E terminates the engagement, but files the California EZ HTC identified by us during this engagement, our fees will continue to be due with respect to the California EZ HTC tax savings that are generated by qualified employees identified and vouchered by PwC under this engagement. PwC is aware that PG&E has another vendor that is primarily responsible for vouchering individuals qualifying for HTC. Alternatively, PG&E may have performed the vouchering work itself. It is PwC's responsibility to make sure that there is no duplication of work. For example, there may be an outstanding voucher requests for which PwC may also submit a voucher request. PG&E will not compensate PwC for any duplication of work.

PG&E will be responsible for payment of any fees imposed by EZ Vouchering Agents for each EZ employee voucher application submitted for approval and the fee will be billed directly by the Vouchering Agent. The voucher processing fee usually ranges between thirty dollars (\$30) and one hundred fifty (\$150) per application submitted, depending upon the specific Enterprise Zone.

Additionally, the State of California has instituted a service charge of \$15 per voucher that is approved by each Vouchering Agent. PG&E will also be responsible for paying this fee and the fee will be billed directly by the respective Vouchering Agent in conjunction with invoices for their fees.

The amount of our fee is based on the assumption that we will receive the information and assistance as detailed throughout this engagement letter. In the event we believe an additional fee is required as the result of the failure of PG&E to meet any of these requests or for any other reason, we will inform you promptly.

### **Payment Schedule**

Our standard practice is to render our invoices on a monthly basis. Payment of our invoices is due on presentation and expected to be received within 45 days of the invoice date.

### **Termination and Dispute Resolution**

Either party may terminate the Services by giving notice to that effect. Any unresolved dispute relating in any way to the Services or this engagement letter shall be resolved by arbitration, except that either party shall be free to seek equitable relief in court. The arbitration will be conducted in accordance with the Rules for Non-Administered Arbitration of the International Institute for Conflict Prevention and Resolution ("Rules") then in effect. The arbitration will be conducted before a panel of three arbitrators selected using the screened process provided in the Rules. The arbitration panel, and not any federal, state or local court or agency, shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, enforceability or formation of this engagement letter. The arbitration panel shall have no power to award non-monetary or equitable relief of any sort. It shall also have no power to award damages inconsistent with the Limitations on Liability provisions below or any other terms in this engagement letter. The arbitration panel may award reasonable attorney and expert witness fees. Judgment on any arbitration award may be entered in any court having jurisdiction. All aspects of the arbitration shall be treated as confidential. You accept and acknowledge that any demand for arbitration arising from or in connection with the Services must



be issued within one year from the date you became aware or should reasonably have become aware of the facts that give rise to our alleged liability and, in any event, no later than two years after the cause of action accrued.

This engagement letter and any dispute relating to the Services will be governed by and construed, interpreted and enforced in accordance with the laws of the State of California without giving effect to any provisions relating to conflict of laws that would require the laws of another jurisdiction to apply. Any such arbitration engaged in pursuant to this section shall be conducted in San Francisco, California.

### **Limitations on Liability**

Except to the extent finally determined to have resulted from our gross negligence or intentional misconduct, or as to the indemnity obligations arising under this Agreement, our aggregate liability for all claims, losses, liabilities or damages in connection with this engagement letter or the Services, whether as a result of breach of contract, tort (including negligence) or otherwise, regardless of the theory of liability asserted, is limited to no more than the total amount of annual fees paid to us for the particular Service giving rise to the liability under this engagement letter. In addition, neither party shall be liable to the other for lost profits, consequential, indirect, punitive, exemplary or special damages. Also, we shall have no liability arising from or relating to any third party hardware, software, information or materials selected or supplied by you.

### **Indemnification**

You agree to indemnify and hold PwC and each Administrative Subcontractor harmless from and against any and all third party claims, losses, liabilities and damages arising from PG&E's failure to provide material information or make a material misstatement relating to the Services or deliverables under this engagement letter to the extent caused by PG&E's gross negligence or willful misconduct, except to the extent finally determined to have resulted from PwC's gross negligence or intentional misconduct relating to such Services and/or deliverables.

### **Administrative Subcontractors**

We may engage other subcontractor(s) to perform certain of PwC's internal business, administrative and regulatory compliance functions (collectively, "administrative functions") to efficiently and more cost effectively operate PwC's business. You acknowledge that we may disclose your information, including your tax return information obtained under this engagement letter, to such subcontractor(s) involved in the performance of such administrative functions, including any subcontractor located outside of the United States. We may also disclose such information to other separate and independent firms in the PricewaterhouseCoopers global network for such administrative functions. These subcontractors and other PricewaterhouseCoopers firms are subject to the same requirements with respect to handling your information as we are. We will be solely responsible for the provision of Services hereunder and for the protection of any of your information to which our subcontractors and/or other PricewaterhouseCoopers firms have access hereunder. Notwithstanding the foregoing, in connection with this engagement, we agree not to use any subcontractors or independent firms of the PricewaterhouseCoopers network to prepare our invoices issued to PG&E and we will not use any subcontractors or independent firms of the PricewaterhouseCoopers global network to perform any professional Services.

### **Regulatory Matters**

Notwithstanding anything to the contrary in this engagement letter, you have no obligation of confidentiality with respect to any portion of any materials, advice or deliverables to the extent they concern the tax structure or tax treatment of any transaction.



## Codification of Economic Substance

Federal law (IRC Section 6662(b)) subjects taxpayers to a strict liability penalty equal to 40% (or 20% if adequately disclosed in a tax return) of any underpayment of tax attributable to that portion of a transaction which is determined to lack economic substance under IRC Section 7701(o) or fails to satisfy any other similar rule of law. The higher penalty will be due if the transaction that is determined to lack economic substance is not "adequately disclosed" in the taxpayer's return; therefore, it is important that you advise your tax return preparers of transactions to which this penalty provision might apply, recognizing that no guidance has yet been issued on the substantive aspects of the codified economic substance doctrine. Penalties can also be imposed by states to the extent that state laws have adopted similar provisions.

To the extent that we provide any advice with respect to the potential impact of the economic substance doctrine included in IRC Section 7701(o) or similar state provisions or any related penalties that might be imposed, such advice rendered as part of our Services will be based on applicable case law, reasonable interpretation of legislation and available guidance. Under IRC Section 6664(c), no exceptions (including the reasonable cause exception) to the imposition of such penalties are available and therefore no advice will protect you from any such penalties. Therefore, PwC shall not be liable for any federal or state penalties imposed on you if any portion of a transaction is determined to lack economic substance or fails to satisfy any similar rule of law or if the disclosure of such transaction is determined to be inadequate.

## Other Written Advice

Based on our discussions, it is anticipated that the written advice PwC provides during the course of this engagement will be Other Written Advice as defined by Circular 230. Accordingly, unless otherwise prohibited or we agree to issue a Covered Opinion as defined by Circular 230, our written advice may include a disclosure stating that the advice was not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed, including, but not limited to penalties that may apply if the transaction that is the subject of our engagement is found to lack economic substance or fails to satisfy any other similar rule of law. Our advice will contain any other disclosures required by Circular 230.

## Tax Return Disclosure and Tax Advisor Listing Requirements

Certain federal and state regulations require taxpayers to disclose their participation in certain reportable transactions to the taxing authorities. PG&E shall advise PwC if PG&E determines that any matter covered by this engagement letter is a reportable transaction that is required to be disclosed. Certain federal and state regulations also require PwC to submit information returns and maintain lists of certain client engagements if PwC is a material advisor to clients that have participated in a reportable transaction. Therefore, if PwC determines, after consultation with PG&E, that PG&E has participated in a transaction causing PwC to have a registration and/or list maintenance obligation, PwC will place PG&E's name and other required information on a list. PwC will contact PG&E if PwC is required to provide PG&E's name to the U.S. Internal Revenue Service or any state in connection with any matter under this engagement letter.

## Federal (Internal Revenue Code Section 6694) and State Preparer Standards

Federal law and certain state laws impose obligations on tax return preparers with respect to a position reported on a tax return or claim for refund that does not meet certain standards regarding levels of confidence. If during the course of this engagement we identify a position that does not meet these standards, we will advise you about your penalty exposure and whether you can avoid penalty through disclosure. If we are preparing the return or claim for refund and it is concluded that disclosure is required, we will prepare the disclosure and provide it to you.



Our work may require consultation with a PwC subject matter specialist to reach and document the level of technical support for the position. We will discuss with you any additional fees that may be incurred as a result of complying with these requirements.

#### **Other Matters**

No party to this engagement letter may assign or transfer this engagement letter, or any rights, obligations, claims or proceeds from claims arising under it, without the prior written consent of the other party, and any assignment without such consent shall be void and invalid. If any provision of this engagement letter is found to be unenforceable, the remainder of this engagement letter shall be enforced to the extent permitted by law. If we perform the Services prior to both parties executing this engagement letter, this engagement letter shall be effective as of the date we began the Services. Neither party shall be liable to the other for any delay or failure to perform any of the Services or obligations in this engagement letter due to causes beyond its reasonable control.

This Agreement, including the attached Riders for PwC Agreement, supersedes any prior understandings, proposals or agreements with respect to the Services, and any changes must be agreed to in writing.

PwC is owned by professionals who hold CPA licenses as well as by professionals who are not licensed CPAs. Depending on the nature of the Services, non-CPA owners may be involved in providing Services under this engagement letter.

\* \* \* \* \*



We are pleased to have the opportunity to provide services to you. If you have any questions about this engagement letter, please discuss them with Matthew A. Mandel at (415) 498-7699 or Paul A. Reshke at (415) 498-6140.

If the Services and terms outlined in this engagement letter are acceptable, please sign one copy of this engagement letter in the space provided and return it to the undersigned. You may return the signed copy by mail or air courier to: Matthew A. Mandel, PricewaterhouseCoopers LLP, Three Embarcadero Center, San Francisco, CA 94111; or attached as a pdf, jpeg or similar file type in an e-mail to me at matthew.a.mandel@us.pwc.com.

Very truly yours,

PricewaterhouseCoopers LLP

By: Matthew A. Mandel  
Matthew A. Mandel, Principal

Attachment: Riders for PwC Agreement

**ACKNOWLEDGED AND AGREED:**

**PG&E Corporation, on behalf of itself and its Subsidiaries**

Signature of PG&E official: Mark T. Catan  
Please print name: Mark T. Catan  
Title: Vice President  
Date: 8/28/13

**Riders for PwC Agreement**

Date: 8/26/13

**INDEPENDENT CONTRACTOR**

PwC is an independent contractor, and all persons hired by PwC in connection herewith shall be employees or subcontractors of PwC and shall not be construed as employees or agents of PG&E in any respect.

**INFRINGEMENT PROTECTION**

PwC represents to PG&E that the Services and deliverables, including but not limited to software programs, documentation, studies, enhancements, modifications, programming, designs (including application designs and system designs), to be furnished, produced or performed under this Agreement do not infringe any copyright, patent, trade secret, or license, or otherwise violate the intellectual property or proprietary rights, of any person or entity (an "Infringement"). PwC agrees to indemnify and hold PG&E, its affiliates, and subsidiaries, and PG&E's officers, managers, directors, agents, and employees harmless from and against any and all liabilities, reasonable costs and damages to the extent arising out of any such Infringement, and from any suit, demand or claim made against PG&E alleging any such infringement. PwC agrees to defend PG&E against any such suit, demand or claim, at PwC's expense. PwC further agrees to pay any judgment or reasonable settlement offer to the extent resulting from such Infringement, and to pay all damages and reasonable attorney's fees. If there is such a claim, PwC agrees to either procure for PG&E the right to continue using the material, Products, Services, and other deliverables, replace them with noninfringing material, Products, Services, and other deliverables, or modify them so that they become noninfringing. The aforesaid procurement, replacement or modifications shall be performed as soon as possible. This infringement indemnity does not cover claims arising from: the combination of such deliverables with Products or Services not provided by PwC; the modification of such deliverables by any person, other than PwC; deliverables complying with or based upon: (1) designs provided by or at the direction of Client or (2) specifications or other information provided by or at the direction of the Client; or use of systems, materials or work performed in a manner not permitted or contemplated hereunder or by another obligation of Client to PwC.

**CONFIDENTIALITY**

In the course of performing the Services under this Agreement, PwC may have access to non-public confidential, commercial, business, or personal information and to information and materials, including but not limited to specifications, designs, records, data, and/or software programs, code, and related documentation, which are owned by PG&E, its parent company, subsidiaries, affiliates or by third parties and in the custody of PG&E, and which constitute valuable confidential and proprietary information, know-how and trade secrets belonging to PG&E, its parent company, subsidiaries, affiliates and/or third parties (all of the foregoing are hereinafter referred to as "Proprietary Information"). PwC hereby agrees that PwC and PwC's employees shall hold such Proprietary Information in confidence and shall not disclose it, or otherwise make it available to any person or third party, including any affiliate of PG&E that produces energy or energy-related products or services, without the prior written consent of PG&E. PwC agrees that all such Proprietary Information:

- a) Shall be used solely for the purpose of performing Services for PG&E
- b) Shall not be reproduced, copied, in whole or in part, except as specifically authorized by PG&E and necessary for that purpose set forth in (a) above

c) Shall, together with any copies, reproductions and other records thereof, in any form, and all information and materials developed by PwC therefrom, be returned to PG&E when no longer needed for the performance of PwC's Services for PG&E. However, PwC may keep an archival set of its working papers together with such copies of PG&E's Proprietary Information necessary to comply with applicable laws, regulations and professional standards with respect to the documentation of work performed.

Notwithstanding anything to the contrary contained in this Agreement, neither party shall be obligated to treat as confidential any information disclosed by the other party (the "Disclosing Party") which: (1) is rightfully known to the recipient prior to its disclosure by the Disclosing Party; (2) is released by the Disclosing Party to any other person or entity (including governmental agencies) without restriction; (3) is independently developed by the recipient without any reliance on Proprietary Information; or (4) is or later becomes publicly available without violation of this Agreement or may be lawfully obtained by a party from any nonparty. Notwithstanding the foregoing, either party will be entitled to disclose Proprietary Information of the other to a third party as may be required by law, statute, rule or regulation, including any subpoena or other similar form of process, provided that (and without breaching any legal or regulatory requirement) the party to which the request is made provides the other party with prompt written notice and allows the other party to seek a restraining order or other appropriate relief. Subject to PwC's confidentiality obligations in this Agreement, PwC will not be prevented or restricted by this engagement from providing services to other clients.

## **INDEMNIFICATION**

PwC shall indemnify, hold harmless and defend PG&E, its affiliates, subsidiaries, parent company, officers, managers, directors, agents, and employees, from and against all claims, demands, losses, damages, reasonable costs and expenses, and liability (legal, contractual, or otherwise) which arise from or are in any way connected with any:

- (i.) bodily injury to or death of persons, including but not limited to employees of PG&E or PwC to the extent that such injury or death is caused by PwC's negligence or willful misconduct;
- (ii.) injury to tangible property of PG&E, PwC, or any third party to the extent that such injury to tangible property is caused by PwC's negligence or willful misconduct;
- (iii) violation of a local, state or federal common law, statute or regulation, including but not limited to, environmental laws or regulations; or
- (iv) strict liability imposed by any law or regulation.

so long as such injury, violation, or strict liability (as set forth in (i) to (iv) above) arises from or is in any way connected with PwC's performance of, or failure to perform, this Agreement, however caused, regardless of any strict liability or negligence of PG&E, whether active or passive, excepting only such loss, damage, cost, expense, liability, strict liability, or violation of law or regulation that is caused by the sole negligence or willful misconduct of PG&E, its officers, managers, or employees.

PwC shall have the right, at its option, defend any action, claim, or suit asserting a claim which might be covered by this indemnity.

To the extent necessary, each Party was represented by counsel in the negotiation and execution of this Agreement.

## **SURVIVAL**

The provisions of this Agreement which by their nature should survive expiration, cancellation or other termination of this Agreement, including but not limited to, provisions regarding infringement protection, indemnity, limitation of liability, and confidentiality, shall survive such expiration, cancellation or other termination.

## **GOVERNING LAW**

This engagement shall be governed by and interpreted in accordance with the laws of the State of California, excluding any choice of law rules which may direct the application of the laws of another jurisdiction.

